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**FINANCE AND AUDIT SUBCOMMITTEE MEETING MINUTES
OCTOBER 14, 2014**

**CalEPA
1001 I Street, Second Floor Training Room
Sacramento, CA 95814**

The Finance and Audit Subcommittee of the California High-Speed Rail Authority (Authority) Board met on October 14, 2014 at 8:00 AM in the Training Room of the CalEPA Building.

Committee Members Present:

Mr. Michael Rossi, Chair

Mr. Tom Richards

Authority Staff Present:

Mr. Jeff Morales, CEO

Mr. Dennis Trujillo, Chief Deputy

Mr. Russell Fong, CFO

Mr. Scott Jarvis, Deputy Chief Program Manager

Mr. Jon Tapping, Risk Manager

Ms. Paula Rivera, Audits

Mr. Tom Fellenz, Chief Counsel

Minutes prepared in the order items were presented during the meeting.

Agenda Item – Minutes from August 2014

Approved without comment.

Agenda Item – Financial Reports – Russell Fong

Questions asked and answered. Issues discussed included:

- Accounts Payable Aging Report – Mr. Rossi likes the percentages on the report; he doesn't see any issues.
- Cash Management Report – Mr. Rossi points out that the report should reflect 12 not 11 months on the graphs. Mr. Fong noted correction.
- Summary of YTD Budget & Expenditures – Mr. Richards asks what Program Management oversight of a thousand dollars represented. Mr. Fong indicated it used to be for project oversight, reflecting T.Y. Lin, however, that was removed and now only reflects minor expenses on the report.

- Executive Budget Summary – Mr. Rossi points out that on pages 1 to 21 on the individual sheets, between FY 2013/14 and 2014/15, there are large jumps in percentages of budget expenditures. Mr. Fong confirmed large jumps are due to the increase in staffing and that this time last year we had about 60 staff whereas this year we are up to 174.5 employees. Mr. Fong indicates that salaries are our highest expense, however, on the lower end than the ratio for most state agencies; ratio should stay pretty lean, not a lot of overhead.
- Capital Outlay Budget Summary – Mr. Rossi indicates it has not changed much and has nothing to add. Mr. Richards had nothing to add other than mentioning in was interesting to note the cap and trade funds graphs.
- Total Project Expenditures with Forecasts – Mr. Rossi indicated if we look at the bottom of the page, we are pretty much where we should be with the Feds, which Mr. Fong confirmed.
- Contracts & Expenditures Report – Mr. Richards appreciates that we keep paring it down. Mr. Fong indicated we did add a new column of forecast expenditures.
- Projects & Indicatives Report – Mr. Rossi was pleased with how clear the data is and indicated we are getting to a place where we can quickly identify potential problems. Mr. Fong indicates we have two projects going on at the same time, the financial system for High-Speed Rail and the Statewide FISCAL project which we are on schedule with, aggressively going toward, shifting our resources to this effort. Mr. Fong also indicated it will increase our controls and put us in a lot better place than where we are in today. FISCAL, which will be our official book of records, will meet about 45% of our needs. Once implemented, mid-summer of 2015, we will have a better idea, if and when there are gaps between the two systems. Once the state system is implemented we will then be able to refocus on our own financial system.
- Summary of Financial Reports – Mr. Rossi indicated no surprises here. Nothing added by Mr. Richards.

Agenda Item - Audits Division Update – Paula Rivera

Questions asked and answered. Issues discussed included:

- Preaward reviews – Mr. Rossi questioned how do the big reportable differences happen? Ms. Rivera indicated there are a number of reasons for differences, one in particular is that firms may use their last audited rate; often if a firm uses an old rate it is because it's higher. Mr. Rossi indicated we should not have to spend our time and money auditing these firms. Mr. Richards asked if the cost requirements are incorporated when the RFQ is sent out. According to Ms. Rivera the overhead rates are unique to each firm and pointed out that smaller firms do not have much preaward state experience. However, the Authority will only pay what their actual costs are. The preaward is done before contract execution to prevent overpayments. Mr. Richards asked if there is some sort of orientation for firms, should we sit down with all the people involved to go over the RFQ and other processes? Mr. Morales indicated we should not assume they are looking at the Federal regulations but instead include in the solicitation guidance on what's allowable for the overheads, part of the issues being different non state agencies may allow different calculations of overhead rates. Mr. Richards inquired if the recommendations have been accepted. Ms. Rivera confirmed, yes, that recommendations have been done and she then completes a follow-up with the firm contract managers. Going forward the

process will be changed somewhat, including preawards, limiting them to a 5-day implementation response which will be included in the work papers.

- Public Records Act Review – Mr. Rossi indicated that the Authority was in compliance with the Public Records act with a few exceptions. Mr. Morales indicated there were several instances when we went over the timeframe and for several reasons. Mr. Rossi stated the Authority appears to have provided appropriate and accurate records. Mr Morales identified that the resolution of the recommendations is within the identified timeframes.

Agenda Item – CP1 Project Update – Scott Jarvis

Questions asked and answered. Issues discussed included:

- CP1 monthly Status Report – Too early to discuss.

CP1 Performance Metrics – Mr. Rossi refers to page 2 of 7, underlined verbiage, can't find this on other pages and also clarify what's in yellow highlight. According to Mr. Jarvis it is the measure of support cost, design build invoices were less than anticipated resulting in a current ratio for support costs that is a little bigger than anticipated. Design build invoice were less than anticipated which makes the percentage a little bigger. Once construction delays are resolved and design builders perform the work, then this metric for construction support costs will likely go into the green. A small note will be added for clarity to explain why this metric is not currently in the green. The schedule is a similar thing - we approve a baseline schedule submitted before the work so we know on any given date that there will be a planned payment amount for the anticipated work completed.,. The planned value stays constant for a given date. Our earned value is based on how much work they performed and how much we actually paid the contractor. Those in the red are due to a slow start to the construction work. An earned value based on what they performed is similar to what the contractor submits with their invoice, so we know the planned value and the ratio reflects a slow construction start. Mr. Richards indicated the missing ingredient is that we do not know who is at fault. Mr. Rossi wants to clearly know when we are at fault and Mr. Richards would like to know the impacts to right-of-way. According to Mr. Jarvis, economic benefits are ramping up and 28.2% (30% goal) of the small business goal is pretty good. **Current Issues** – No additional issues were brought forward.

Closed session with the auditor; meeting ended at 10:00 AM.